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TOWNSHIP OF ISABELLA  
Isabella County, Michigan

LOCAL AUDIT  
FINANCE DIV.

GENERAL PURPOSE FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION

Year Ended March 31, 2004

## AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

<b>Local Government Type</b> <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		<b>Local Government Name</b> Township of Isabella	<b>County</b> Isabella
<b>Audit Date</b> March 31, 2004	<b>Opinion Date</b> June 28, 2004	<b>Date Accountant Report Submitted to State:</b> June 28, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |  |
|---|--|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).   |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

<b>Certified Public Accountant (Firm Name)</b> Campbell, Kusterer & Co., P.C.			
<b>Street Address</b> 512 N. Lincoln, Suite 100, P.O. Box 686		<b>City</b> Bay City	<b>State</b> MI
<b>Accountant Signature</b> Campbell, Kusterer & Co., P.C.		<b>Zip</b> 48707	

TOWNSHIP OF ISABELLA  
Isabella County, Michigan

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# **CAMPBELL, KUSTERER & CO., P.C.**

CERTIFIED PUBLIC ACCOUNTANTS

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## **INDEPENDENT AUDITOR'S REPORT**

June 28, 2004

To the Township Board  
Township of Isabella  
Isabella County, Michigan

We have audited the accompanying general purpose financial statements of the Township of Isabella, Isabella County, Michigan, as of March 31, 2004, and for the year then ended, as listed in the table of contents. These general purpose financial statements are the responsibility of the Township of Isabella's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Township of Isabella, Isabella County, Michigan, as of March 31, 2004, and the results of its operations for the year ended in conformity with accounting principles generally accepted in the United States.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the Township of Isabella, Isabella County, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

*Campbell, Kusterer & Co., P.C.*

CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants

TOWNSHIP OF ISABELLA  
Isabella County, Michigan

COMBINED BALANCE SHEET – ALL FUND TYPES AND ACCOUNT GROUPS    EXHIBIT A  
March 31, 2004

	<u>Governmental Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Account Group</u>	<u>Total</u>
	<u>General</u>	<u>Agency</u>	<u>General Fixed Assets</u>	<u>(Memorandum Only)</u>
<u>Assets</u>				
Cash in bank	294 442 75	716 20	-	295 158 95
Due from other funds	716 20	-	-	716 20
Land and improvements	-	-	150 928 54	150 928 54
Buildings and improvements	-	-	59 313 17	59 313 17
Equipment	-	-	97 833 27	97 833 27
<b>Total Assets</b>	<u>295 158 95</u>	<u>716 20</u>	<u>308 074 98</u>	<u>603 950 13</u>
<u>Liabilities and Fund Equity</u>				
Liabilities:				
Due to other funds	-	716 20	-	716 20
<b>Total liabilities</b>	<u>-</u>	<u>716 20</u>	<u>-</u>	<u>716 20</u>
Fund equity:				
Investment in general fixed assets	-	-	308 074 98	308 074 98
Fund balances:				
Unreserved:				
Undesignated	295 158 95	-	-	295 158 95
<b>Total fund equity</b>	<u>295 158 95</u>	<u>-</u>	<u>308 074 98</u>	<u>603 233 93</u>
<b>Total Liabilities and Fund Equity</b>	<u>295 158 95</u>	<u>716 20</u>	<u>308 074 98</u>	<u>603 950 13</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF ISABELLA  
Isabella County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES

Year Ended March 31, 2004

EXHIBIT B  
Page 1

	Total (Memorandum Only) Governmental Fund Type General
Revenues:	
Property taxes	38 738 19
State revenue sharing	129 294 37
Charges for services	1 120 00
Interest	4 107 67
Rent	1 823 44
Miscellaneous	<u>66 062 22</u>
Total revenues	<u>241 145 89</u>
Expenditures:	
Legislative:	
Township Board	9 314 49
General government:	
Supervisor	16 738 06
Elections	50 00
Clerk	13 762 22
Board of Review	1 235 20
Treasurer	13 122 65
Building and grounds	3 099 48
Cemetery	7 027 12
Public safety:	
Public safety	39 932 84
Public works:	
Highways and streets	52 589 59
Street lighting	973 31
Recreation:	
Park	8 402 98
Other:	
Insurance	4 834 00
Retirement	12 646 65
Payroll taxes	594 91
Capital outlay	<u>7 077 42</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF ISABELLA  
Isabella County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES – ALL GOVERNMENTAL FUND TYPES

Year Ended March 31, 2004

EXHIBIT B  
Page 2

	Total (Memorandum Only) Governmental Fund Type General
Total expenditures	<u>191 400 92</u>
Excess of revenues over expenditures	49 744 97
Fund balance, April 1	<u>245 413 98</u>
Fund Balance, March 31	<u>295 158 95</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF ISABELLA  
Isabella County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES – BUDGET AND ACTUAL – GENERAL FUND

Year Ended March 31, 2004

EXHIBIT C  
Page 1

	<u>General Fund</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Revenues:			
Property taxes	39 500 00	38 738 19	(761 81)
Licenses and permits	600 00	-	(600 00)
State revenue sharing	125 000 00	129 294 37	4 294 37
Charges for services	3 000 00	1 120 00	(1 880 00)
Interest	1 000 00	4 107 67	3 107 67
Rent	950 00	1 823 44	873 44
Miscellaneous	10 000 00	66 062 22	56 062 22
Total revenues	<u>180 050 00</u>	<u>241 145 89</u>	<u>61 095 89</u>
Expenditures:			
Legislative:			
Township Board	9 315 00	9 314 49	(51)
General government:			
Supervisor	16 770 00	16 738 06	(31 94)
Elections	1 550 00	50 00	(1 500 00)
Clerk	13 945 00	13 762 22	(182 78)
Board of Review	2 050 00	1 235 20	(814 80)
Treasurer	13 864 00	13 122 65	(741 35)
Building and grounds	3 720 00	3 099 48	(620 52)
Cemetery	7 028 00	7 027 12	(88)
Public safety:			
Public safety	41 865 00	39 932 84	(1 932 16)
Public works:			
Highways and streets	53 250 00	52 589 59	(660 41)
Street lighting	1 200 00	973 31	(226 69)
Recreation:			
Park	9 250 00	8 402 98	(847 02)
Other:			
Insurance	4 834 00	4 834 00	-
Retirement	12 647 00	12 646 65	(35)
Payroll taxes	800 00	594 91	(205 09)
Contingency	2 400 00	-	(2 400 00)
Capital outlay	14 481 00	7 077 42	(7 403 58)
Total expenditures	<u>208 969 00</u>	<u>191 400 92</u>	<u>(17 568 08)</u>

The accompanying notes are an integral part of these financial statements.



TOWNSHIP OF ISABELLA  
Isabella County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES – BUDGET AND ACTUAL – GENERAL FUND

Year Ended March 31, 2004

EXHIBIT C  
Page 2

	<u>General Fund</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Excess (deficiency) of revenues over expenditures	(28 919 00)	49 744 97	78 663 97
Fund balance, April 1	<u>28 919 00</u>	<u>245 413 98</u>	<u>216 494 98</u>
Fund Balance, March 31	<u>-</u>	<u>295 158 95</u>	<u>295 158 95</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF ISABELLA  
Isabella County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Township of Isabella, Isabella County, Michigan conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

In accordance with the provisions of the Governmental Accounting Standards Board's Statement No. 14 "The Financial Reporting Entity," the general purpose financial statements of the Township contain all the Township funds and account groups that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Township of Isabella. The Township is governed by an elected Township Board. As required by generally accepted accounting principles, these financial statements present the Township as the primary government.

Joint Venture – Isabella Northeast Fire District

The Township is a member of the Isabella Northeast Fire District, which is a joint venture of the Village of Rosebush and the Townships of Isabella, Vernon, and Denver. Each unit appoints a representative to serve on the five-member Isabella Northeast Fire District Board, along with a member selected at large. The Fire District Board is responsible for adopting the annual budget. The costs of operation of the Fire District are shared among the units based on their portion of the total State Equalized Valuation of the Fire District. Annual contributions to the Fire District are made based upon the budget.

The Fire District is audited and reported separate from the Township.

Basis of Presentation

The financial activities of the local unit are recorded in separate funds and account groups, categorized and described as follows:

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

TOWNSHIP OF ISABELLA  
Isabella County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

Fiduciary Fund

The Current Tax Collection Fund is used to account for assets held as an agent for others.

Account Group

General Fixed Assets Account Group

This account group presents the fixed assets of the local unit utilized in its general operations.

Measurement Focus/Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present revenues and other financing sources and, expenditures and other financial uses in net current assets.

The modified accrual basis of accounting is followed by the governmental fund types. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual which is both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than principal and interest on long-term debt, are recorded when the related fund liability is incurred, if measurable. Principal and interest on general long-term debt is recognized when due.

Revenues from local sources consist primarily of property taxes. Property taxes and revenues received from the State are recognized when susceptible to accrual. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available.

TOWNSHIP OF ISABELLA  
Isabella County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The Township 2003 tax roll millage rate was .9788 mills, and the taxable value was \$39,598,143.00.

Fixed Assets

Purchases of fixed assets for all funds are recorded as expenditures in their respective funds at the time of purchase. They are also recorded at cost in the General Fixed Assets Group of Accounts as required by generally accepted accounting principles.

Investments

Investments are stated at market.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Compensated Absences (Vacation and Sick Leave)

Employees are not allowed to accumulate vacation and sick pay and therefore no accumulated amount is recorded in the financial statements.

TOWNSHIP OF ISABELLA  
Isabella County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these general purpose financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Township Board.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these general purpose financial statements are the originally adopted budgets with all amendments that were approved by the Township Board during the fiscal year.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Postemployment Benefits

The Township provides no postemployment benefits to past employees.

TOWNSHIP OF ISABELLA  
Isabella County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 2 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township Board has designated two banks for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Township's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>295 158 95</u>
Amounts in the bank balances are without considering deposits in transit or uncleared checks.	
	<u>Bank Balances</u>
Insured (FDIC)	185 001 30
Uninsured and Uncollateralized	<u>110 420 99</u>
Total Deposits	<u>295 422 29</u>

The Township of Isabella did not have any investments as of March 31, 2004.

TOWNSHIP OF ISABELLA  
Isabella County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 3 – Changes in General Fixed Assets

A summary of changes in general fixed assets follows:

	<u>Balance 4/1/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 3/31/04</u>
Land and improvements	150 928 54	-	-	150 928 54
Buildings and improvements	53 607 35	5 705 82	-	59 313 17
Equipment	<u>96 461 67</u>	<u>1 371 60</u>	-	<u>97 833 27</u>
Totals	<u>300 997 56</u>	<u>7 077 42</u>	-	<u>308 074 98</u>

Note 4 – Interfund Receivables and Payables

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	<u>716 20</u>	Current Tax Collection	<u>716 20</u>
Total	<u>716 20</u>	Total	<u>716 20</u>

Note 5 – Deferred Compensation Plan

The Township does not have a deferred compensation plan.

Note 6 – Retirement Plan

The Township has a retirement plan that covers all elected officers. Under the plan the Township pays all of the cost which for the year ended March 31, 2004, was \$12,646.65.

Note 7 – Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts, and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

TOWNSHIP OF ISABELLA  
Isabella County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

Note 8 – Building Permits

The Township of Isabella does not issue building permits. Building permits are issued by the County of Isabella.

Note 9 – Total Columns on Combined Statements--Overview

The total columns on the combined financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation, because interfund eliminations have not been made in the aggregation of this data.



TOWNSHIP OF ISABELLA  
Isabella County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT  
Year Ended March 31, 2004

EXHIBIT D  
Page 1

Township Board:	
Wages	8 340 00
Dues	773 45
Miscellaneous	201 04
	<u>9 314 49</u>
Supervisor:	
Salary	7 420 00
Supplies	508 56
Assessing contracted services	8 800 00
Miscellaneous	9 50
	<u>16 738 06</u>
Elections:	
Wages	50 00
	<u>50 00</u>
Clerk:	
Salary	11 970 00
Deputy	150 00
Supplies	93 38
Education and training	1 106 80
Miscellaneous	442 04
	<u>13 762 22</u>
Board of Review:	
Wages and supplies	1 235 20
	<u>1 235 20</u>
Treasurer:	
Salary	11 042 00
Salary – deputy	600 00
Printing and publishing	31 00
Supplies	1 190 65
Miscellaneous	259 00
	<u>13 122 65</u>
Building and grounds:	
Wages	590 00
Repairs and maintenance	611 74
Utilities	1 897 74
	<u>3 099 48</u>
Cemetery:	
Wages	550 00
Contracted services	3 300 00
Repairs and maintenance	1 939 38
Miscellaneous	1 237 74
	<u>7 027 12</u>

TOWNSHIP OF ISABELLA  
Isabella County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT  
Year Ended March 31, 2004

EXHIBIT D  
Page 2

Public safety:	
Contracted services	<u>39 932 84</u>
Highways and streets:	
Contracted services	<u>52 589 59</u>
Street lighting	<u>973 31</u>
Park:	
Wages	300 00
Repairs and maintenance	2 065 56
Utilities	2 076 68
Contracted services	3 300 00
Miscellaneous	<u>660 74</u>
	<u>8 402 98</u>
Insurance	<u>4 834 00</u>
Retirement	<u>12 646 65</u>
Payroll taxes	<u>594 91</u>
Capital outlay	<u>7 077 42</u>
Total Expenditures	<u><u>191 400 92</u></u>

TOWNSHIP OF ISABELLA  
Isabella County, Michigan

CURRENT TAX COLLECTION FUND  
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
Year Ended March 31, 2004

EXHIBIT E

	<u>Balance 4/1/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 3/31/04</u>
<u>Assets</u>				
Cash in bank	<u>981 51</u>	<u>1 265 475 00</u>	<u>1 265 740 31</u>	<u>716 20</u>
Total Assets	<u>981 51</u>	<u>1 265 475 00</u>	<u>1 265 740 31</u>	<u>716 20</u>
<u>Liabilities</u>				
Due to General Fund	981 51	39 083 82	39 349 13	716 20
Due to other taxing units	<u>-</u>	<u>1 226 391 18</u>	<u>1 226 391 18</u>	<u>-</u>
Total Liabilities	<u>981 51</u>	<u>1 265 475 00</u>	<u>1 265 740 31</u>	<u>716 20</u>

TOWNSHIP OF ISABELLA  
Isabella County, Michigan

CURRENT TAX COLLECTION FUND  
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS  
Year Ended March 31, 2004

EXHIBIT F

Cash in bank – beginning of year	<u>981 51</u>
Cash receipts:	
Current property tax	1 265 389 88
Interest	<u>85 12</u>
Total cash receipts	<u>1 265 475 00</u>
Total beginning balance and cash receipts	<u>1 266 456 51</u>
Cash disbursements:	
Township General Fund	39 349 13
Isabella County	672 524 50
Chippewa River District Library	54 914 18
Mt. Pleasant Public Schools	407 152 24
I.C.T.C.	25 694 74
Beal City Public Schools	64 521 42
Refunds	<u>1 584 10</u>
Total cash disbursements	<u>1 265 740 31</u>
Cash in Bank – End of Year	<u><u>716 20</u></u>

# **CAMPBELL, KUSTERER & CO., P.C.**

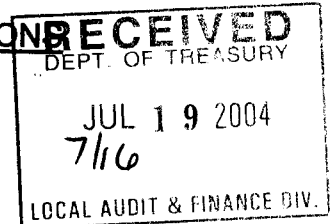
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## **AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS**



June 28, 2004

To the Township Board  
Township of Isabella  
Isabella County, Michigan

We have audited the financial statements of the Township of Isabella, for the year ended March 31, 2004. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

### **AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES**

We conducted our audit of the financial statements of the Township of Isabella in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

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For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

### **SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies are described in Note 1 to the financial statements.

### **OTHER COMMUNICATIONS**

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

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### **GASB 34 IMPLEMENTATION**

The Governmental Accounting Standards Board issued a new reporting model for governmental units which is to be implemented over the next few years. The implementation date of this pronouncement for the Township of Isabella will begin with the year ended March 31, 2004, and will need to be implemented fully by March 31, 2005. The daily operations and recording transactions should not change significantly, however, the Township will be required to maintain additional records for the year end adjustments to the final presentation format.

### **COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY**

Our procedures disclosed the following conditions that we would like to bring to your attention:

#### **SEGREGATION OF DUTIES**

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated March 31, 2004.

### **SUMMARY**

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

*Campbell, Kusterer & Co., P.C.*

CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants